

STATE BOARD OF FINANCE
August 14, 2018 – 1:00 PM
Summary Minutes

Location:

Via videoconference at the following locations:

Old Assembly Chambers	Governor's Office Conference Room
Capitol Building, Second Floor	555 E Washington Avenue, Suite 5100
101 N. Carson Street	Las Vegas, NV 89101
Carson City, NV 89701	

Governor Sandoval called the meeting to order at 1:00 P.M. Controller Knecht was excused.

Board members present:

Governor Brian Sandoval – Carson City
Treasurer Dan Schwartz – Las Vegas
Teresa Courier – Carson City
Brian Sagert – Las Vegas

Others present:

Tara Hagan – Chief Deputy Treasurer
Lori Chatwood – Deputy Treasurer – Debt
Brandee Mooneyhan – Deputy Attorney General
CJ Manthe – Nevada Department of Business and Industry
Jackie Pierrott – Nevada Department of Business and Industry
Stephen Aichroth – Nevada Housing Division
Fred Eoff – Public Financial Management
Jenni Cartright - Nevada Department of Administration
Kendra Follett – Sherman & Howard
Marty Johnson – JNA Consulting
Aaina Sharma – Praxis Consulting Group
Hilary Lopez – Praxis Consulting Group
Alan Molasky – Ovation
Lorri Murphy – Ovation
Richard Wuss – Morgan Stanley
Eric Pryor – Fulcrum
Jeanne Benedict – Fulcrum
John Wang – Orrick
David Robertson – Lewis Young Robertson
Ryan Worburton – Gilman & Bell
Andrew Artusa – Zions Public Finance

Agenda Item 1 – Public Comment.

Mr. Brian Sagert, new Board member introduced himself and gave members his background.

No other public comment in Carson City or Las Vegas.

Agenda Item 2 – For discussion and possible action – Approval of the Board of Finance minutes from the meeting held on June 12, 2018.

Teresa Courier moved to approve the minutes. Treasurer Schwartz seconded the motion. Motion passed unanimously.

Agenda Item 3 – For discussion and possible action: Discussion and possible action on a resolution designated the “2018A Capital Improvement, Historic Preservation and Refunding Bond Resolution”; authorizing the issuance and sale of the State of Nevada, General Obligation (Limited Tax) Capital Improvement, Historic Preservation and Refunding Bonds, Series 2018A, in the aggregate principal amount not to exceed \$125,000,000; providing the purpose for which such bonds are issued, the form, terms, and conditions of such bonds and other details in connection therewith; providing for the levy and collection of annual general (ad valorem) taxes for the payment of such bonds; and providing other related matters.

Ms. Chatwood presented to the Board the results of the 2018 bonding programs which are in an aggregate principal amount not to exceed \$125,000,000 and inclusive of multiple projects. She explained there is \$20,500,000 for the 2017 Capital Improvement Projects program, including \$15,250,000 for the Department of Motor Vehicle building in Reno, \$25,500,000 for the University of Nevada-Reno Engineering building and \$1 million for the Historic Preservation Grants Project. She stated that the par value to be issued is \$62,250,000 and in addition to that, the State Treasurer’s Office (STO) has asked for permission to proactively include the refunding of the 2009 Build America Bond. She stated that if the refunding is approved, there will be just over \$2.2 million in savings, however the Internal Revenue Service is currently working on guidance to determine whether the Build America Bond is refundable under an advance refunding. She indicated that she is including it with the sale should the guidance be favorable but if not, STO will not proceed with the refunding. Ms. Chatwood stated that all of the bonds are subject to the constitutional debt limit and are all included in the affordability or have other funds to pay for them.

Governor Sandoval asked what kind of environment is expected with regards to the sale of the bonds. Ms. Chatwood stated that she expects strong competition for the bonds and thinks there will be good interest rates. Andrew Artusa with Zions Public Finance stated that they do anticipate very low interest rates in the high 3% or low 4% on the sale of the bonds.

Brian Sagert moved to approve Agenda Item 3. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 4 – For discussion and possible action: Discussion and possible action on a resolution designated the “2018B Natural Resources Tahoe Bond Resolution”; (a) authorizing the issuance and sale of the State of Nevada, General Obligation (Limited Tax) Natural Resources Tahoe Bond, Series 2018B, in the aggregate principal amount not to exceed \$2,835,000; providing the purpose for which such bond is issued, the form, terms, and conditions of such bond and other details in connection therewith; providing for the levy and collection of annual general (ad valorem) taxes for the payment of such bond; and (b) approving the

investment of moneys in the Consolidated Bond Interest and Redemption Fund of the State in such bond; and providing other related matters.

Ms. Chatwood presented and stated that the STO has authority to issue bonds under the Tahoe Environmental Improvement program and is bringing it forth as a private placement with the state rather than inclusion in the competitive sale. She explained that the Bond Interest and Redemption Fund would purchase the bond as an investment rather than the bond being sold through a public competitive sale or a bank private placement. She noted that the bond is a General Obligation bond of the state and is not subject to the constitutional debt limit and it is in the affordability as projected. Ms. Chatwood stated there are multiple advantages for the Bond Fund purchasing this as an investment such as: receipt of loan origination fee, additional interest earnings and total overall return to the bond fund which is documented in the meeting materials. Ms. Chatwood stated the par amount is not to exceed \$2,835,000 and it is anticipated that the par amount of the bonds to be \$2,500,000.

Governor Sandoval asked who decides whether a project is worth while and if it should be funded by the proceeds associated with Lake Tahoe. Ms. Chatwood stated that in regards to the Tahoe Environmental Improvement Program, under SB438 it explains the categories of the projects in which certain amounts have been set aside and within those categories, the Division of State lands which administers Tahoe determines the individual programs.

Teresa Courier moved to approve Agenda Item 4. Brian Sagert seconded the motion. Motion passed unanimously.

Agenda Item 5 – For discussion and possible action: Discussion and possible action on the request by the Director of the State of Nevada Department of Business and Industry to approve the Findings of Fact pertaining to the issuance of industrial development revenue bonds in one or more issues in an aggregate amount not to exceed \$47,000,000 for the purpose of assisting in the financing or refinancing of a portion of the additional costs of (i) constructing and equipping a facility to be used for converting municipal solid waste into renewable fuel products located on an approximately 19.4-acre site to be located at 3600 Peru Drive in the Tahoe-Reno Industrial Center, Storey County, Nevada; and (ii) the improvements to and equipping of the facility used for preliminary sorting and processing of municipal solid waste located on an approximately 10.0-acre site at 350 Saddle Court in Mustang, Storey County, Nevada. The project will be owned by Fulcrum Sierra Holdings, LLC, and operated by Fulcrum BioEnergy, Inc. Approval of the Board of Finance is required pursuant to NRS 349.580(2).

CJ Manthe presented the Department of Business and Industry's request seeking approval from the Board for the Findings of Fact pertaining to the issuance of industrial development revenue bonds in one or more issues in an aggregate amount not to exceed \$47,000,000 for the Fulcrum Sierra Bio Fuels project. The Department has successfully facilitated the issuance of three prior series of bonds in the aggregate amount of \$175,000,000. This is the fourth phase of funding which will be used to provide for the financing or refinancing of a portion of the additional costs of construction and equipping the facilities to be used for sorting, processing and converting municipal solid waste into renewable fuel products for the airline industry and for military purposes. The project has two operational sites; the feedstock facility, and the biorefinery and

both facilities are located in Storey County. This project will also be a huge boost to the local economy producing over 550 construction jobs, 120 non-construction permanent jobs, and more than 1,100 indirect jobs.

Eric Pryor with Fulcrum presented an update of the construction to the Board stating that they have come up with several enhancements to the water treatment facilities to help maximize the reuse of water and minimize consumption by 50%. The project will allow for more autonomy and less dependence on infrastructure in the industrial park. He noted that other enhancements are in the feedstock processing facility where trommel drums and dryers will be installed. He explained that the trommel drums will aid in sorting materials to reduce excess burden on other machinery in the process and the dryers will enable more efficient processing of the materials throughout the plant. He stated that together the trommel drums and dryers will extend the useful life of the Plant's machinery, reduce repair and replacement of parts, improve operations and reduce overall costs. He noted that the construction is still on schedule to be completed around the end of calendar year 2019 or the beginning of 2020.

Ryan Worburton with Gilmore and Bell explained the structure of the financing, stating that the bonds are special limited obligations of the Department of Business and Industry and are secured solely by the revenues of the project and that the State has no liability for repayment of the bonds for the State of Nevada. Mr. Worburton explained that the prior bond series were issued on behalf of Fulcrum BioFuels, a subsidiary of Fulcrum Holdings and that this round of financing will be issued on behalf of Fulcrum Holdings, the parent company. In order to provide additional security for the bonds, Fulcrum will deliver a technology performance insurance policy.

Treasurer Schwartz asked if the bonds were subordinate to the existing bonds or on par with the existing (pari-passu). Ryan Worburton stated that the bond holders will get paid after the existing bond holders.

Treasurer Schwartz asked that since the bonds to be issued will be subordinate to the others if this would make them less attractive in the marketplace. Ryan Worburton stated, in his opinion, he wouldn't characterize it as negative, but simply different; he noted that the institutional investors understand what they are buying and will still find the bonds a good investment.

David Robertson with Lewis and Young gave an overview of the financing stating that when looking at the financial components of the transaction, they are pleased with the enhancements to the project. He noted that not only will it enhance the overall operations of the project, it will lower some of the costs which will improve the debt service coverage on both series of bonds. In servicing the existing debt, Fulcrum BioFuels projects 1.4x, 1.6x and 1.9x coverage respectively in the first three years of operations, with an average of 2.4x coverage for the next 5-years. He noted that the projected debt service coverage for the Fulcrum Holdings' Series 2018 bonds is 5.5x, 3.1x and 6.0x respectively for the first three years and averaging 3.9x for the next 5-years, thereafter. With the additional debt, Fulcrum is infusing additional equity into the project and it is anticipated to be a 50/50 split between debt and equity into the project. Assuming there is approval from the Board today, the offering documents will be available to investors towards the end of the month, with a closing in the beginning of September. Mr. Robertson stated they feel comfortable moving forward with the project.

Richard Wiess with Morgan Stanley stated that the financing being requested for the Board's approval today builds on the successful placement of the \$175,000,000 in taxes and project bonds that was issued by the Board in three separate issuances since last fall. The prior issuances were sold to a number of institutional investors. He noted over thirty investors have had the opportunity to review the credit on the current issuance with many of these investors having participated in the prior transactions. He noted that the bonds will be marketed to investors who are already familiar with the project and its financing structure and stated that it is helpful that the current market demand for these types of issuances are very strong.

Governor Sandoval asked Mr. Worburton, Mr. Weiss, Mr. Robertson and Director Manthe if they recommend the Board approve this agenda item based on their experience and analysis.

Mr. Robertson stated, with regards to the financing, that they do recommend the Board approve the agenda item.

Ms. Manthe also stated she supports the approval recommendation. In consultation with the bond council team, they have done extensive due diligence and based upon meeting the due diligence requirements as well as the public benefit and the economic development benefit, they do recommend the overall approval of this agenda item.

Mr. Worburton also stated, with regards to the financing, they recommend the Board approve the agenda item.

Mr. Weiss stated he was highly confident with the project and recommends the Board approve the agenda item.

Brian Sagert moved to approve Agenda Item 5. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 6 - For discussion and possible action: Discussion and possible action on the Nevada Housing Division's request to approve the Administrator's Findings of Fact pertaining to the issuance of up to \$27,000,000 of Multi-Unit Housing Revenue Bonds (Fort Apache Senior Apartments), for the purpose of construction of a 195-unit affordable housing rental project in Las Vegas, Nevada. The project owner/developer will be a limited partnership entity comprised of Ovation Affordable Housing, Inc. (an affiliate of Ovation Development Corporation) and Coordinated Living of Southern Nevada, Inc. Bank of America, N.A. will be the equity investor limited partner. Approval of the Board of Finance is required pursuant to NRS 319.270(4).

Mr. Aichroth presented the Nevada Housing Division's request to approve the Administrator's Findings of Fact pertaining to the issuance of up to \$27,000,000 of Multi-Unit Housing Revenue Bonds for the Fort Apache Senior Apartments. He noted that the bonds will be used to provide for the new construction of a 195-unit affordable senior apartment complex in the Las Vegas Valley. The rental housing will serve 195 households at or below 60% of the area medium income and the 60% figure represents individuals who are earning \$29,460 or less and couples who are making less than \$33,660. Mr. Aichroth stated the project will be co-developed by Ovation Development and Coordinated Living of Southern Nevada whose mission is to enable

Nevada seniors to age in a place with choice and dignity. The Housing Division will be the conduit issuer on the project and there will be no liability for the repayment of the bonds for the State of Nevada. The project will be structured in two phases; the construction phase and the permanent phase with construction debt being placed directly with Bank of America and the permanent debt being placed with Barings LLC. Bank of America will act as the investor member and will provide an equity investment of approximately \$13,123,000, in exchange for the 4% low income housing tax credit.

Mr. Fred Eoff provided an overview of the property and financing and noted that he anticipated the final numbers to be very similar to those noted in the Board materials.

Governor Sandoval asked what is the age group that defines senior and makes them eligible to take advantage of the property. Mr. Aichroth explained there must be one individual in the household that is 55 years of age or older.

Governor Sandoval asked when the estimated completion date of the project will be and how do they determine who gets to occupy the premises. Mr. Aichroth stated the estimated completion date is June 2020. Mr. Molasky, developer of the project, stated it's first come first serve as far as occupying the premises.

Brian Sagert moved to approve Agenda Item 6. Treasurer Schwartz seconded the motion. Motion passed unanimously.

Agenda Item 7 – **For discussion and possible action:** Consideration and Approval of form of master repurchase agreement for RBC Royal Bank and RBC Capital Markets, LLC. pursuant to NRS 355.140(2)(a)(3).

Kim Shafer presented to the Board seeking approval of form of master repurchase agreements for RBC Royal Bank and RBC Capital Markets, LLC. Ms. Shafer explained that NRS 355.140 requires the State Treasurer to have executed a written master repurchase agreement in a form satisfactory to both the State Treasurer and the Board of Finance. The master repurchase agreement must require the prompt delivery to the State Treasurer and the appointed custodian of written confirmations of all transactions conducted thereunder, and must be developed to give consideration to the Federal Bankruptcy Act, 11 U.S.C.

In 2016, the State Board of Finance approved the master repurchase agreement for use with three counterparties. The approved master repurchase agreement was created by the Bond Market Association and has not changed since 1996. The State Treasurer's office does have modifications to the supplemental terms and conditions (Annex I) for each of the two new agreements. STO, in conjunction with the Attorney General's Office modified these supplemental agreements to ensure terms most appropriate to the State.

No comments or questions from Board members.

Treasurer Schwartz moved to approve Agenda Item 7. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 8 – **For discussion and possible action:** Discussion and possible action (a) regarding the State Treasurer’s quarterly investment report for the quarter ended June 30, 2018 and (b) to approve or disapprove the Treasurer’s investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).

Ms. Hagan presented the overview of the State Treasurer’s quarterly investment report for the quarter ending June 30, 2018 and the Treasurer’s investment policies for the General Portfolio and LGIP. She noted that the improved performance of the General Portfolio can be seen in the increased amount of interest that has been paid to State agencies. She noted that the total amount of interest distributed in Fiscal Year 18 was ~\$35 million versus \$19.3million in Fiscal Year 17. She reviewed the performance of the General Portfolio, including the assets managed in-house and those managed by outside investment managers. She noted that the outside managers have been outperforming the benchmark in calendar 2018. Ms. Hagan concluded with the fixed income market highlights, noting that the Federal Reserve continues its hawkish stance by signaling for two additional rate hikes during the back half of the calendar year and potentially three more in 2019.

Brian Sagert moved to approve Agenda Item 8. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 9 - Board Members’ comments, including discussion of future agenda items and status of past, present and future projects or other matters within the Board’s jurisdiction.

No comments from Board Members

Agenda Item 10 – **Public Comment**

No public comment in Carson City or Las Vegas.

Meeting adjourned at 1:57pm.